



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

REGION 6

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APR 10 2013

Alex Appeaning, Ph.D.
Deputy Secretary
Louisiana Department of Environmental Quality
Post Office Box 4303
Baton Rouge, Louisiana 70821-4303

Dear Dr. Appeaning:

Enclosed is the Final State Fiscal Year (SFY) 2012 Base program Clean Water State Revolving Fund (CWSRF) Annual Program Evaluation Report (PER). The report is based on the State's FY 2012 CWSRF Annual Report, on-site discussions and file reviews on January 15-18, 2013, and the EPA's completion of our standardized national check lists of program evaluation questions. We appreciate your assistance, as well as that of your staff in this review process.

The CWSRF requires that states comply with Title VI, Section 606(e) of the Clean Water Act (CWA), 40 CFR 35.3165(c), its capitalization grant conditions, and operating agreement conditions. Our review showed that The Louisiana Department of Environmental Quality (LDEQ) was in compliance in SFY 2012. The PER summarizes the requirements and LDEQ's contributions during the reporting period, as well as some recommended areas for improvement in LDEQ's CWSRF Program. One of the highlights recommends that LDEQ continue to focus on reducing unliquidated obligations.

We appreciate the efforts of the Louisiana Department of Environmental Quality in protecting the waters of the State of Louisiana. If you have any questions regarding this report, please contact me at (214) 665-7101, or have your staff contact Mike Vaughan at (214) 665-7313.

Sincerely yours,

for

William K. Honker
Director
Water Quality Protection Division

Enclosure

cc (w/encl.): Ms. Karyn Andrews (LDEQ)
Mr. Jonathan McFarland (LDEQ)

CLEAN WATER STATE REVOLVING FUND
ANNUAL PROGRAM EVALUATION REPORT
STATE OF LOUISIANA
FISCAL YEAR 2012
(STATE FISCAL YEAR 7/1/11- 6/30/12)

Prepared by EPA Region 6

Assistance Programs Branch

I. Introduction

The purpose of this Program Evaluation Report (PER) is to present findings, conclusions, and recommendations based on the State's Fiscal Year 2012 (SFY 2012) operation of the Clean Water State Revolving Fund (CWSRF) Program, and to document whether the State has complied with the requirements of Title VI.

Title VI, Section 606(e) of the Clean Water Act (CWA), and 40 CFR 35.3165(c) require the Environmental Protection Agency (EPA) to conduct an annual review of each State's SRF in terms of the Annual Report and other such materials considered necessary and appropriate in carrying out the purposes of Title VI of the CWA.

The purposes of the annual review are:

- to evaluate the success of the State's performance in achieving goals and objectives identified in the Intended Use Plan (IUP), and the State's Annual Report;
- to evaluate the State's compliance with its Operating Agreement;
- to determine compliance with Part 31 of the general grant regulations and the provisions of the capitalization grant agreement, including special conditions;
- to assess the financial status and performance of the Fund;
- to review the status of resolution of prior year Program Evaluation Report (PER) findings; and
- to examine and follow up on any open audit findings and recommendations.

II. Review Results and EPA Recommendations

EPA reviewed LDEQ's operations for State Fiscal Year (SFY) 2012 (July 1, 2011 to June 30, 2012). The review was conducted on-site, at the LDEQ on January 15th – 18th, 2013. The following grants were subject to review: #CS22000211 and #CS22000212. We reviewed the following project files: Westwego (#CS221770-01) and New Orleans (#CS221090-01).

Notwithstanding the following observations, EPA found that LDEQ is in compliance with Title VI, Section 606(e) of the Clean Water Act (CWA), 40 CFR 35.3165(c), the capitalization grant conditions, and operating agreement conditions.

A. Programmatic Review Results and Recommendations

Unliquidated Obligations (ULO's)- LDEQ presently has a \$8,970,300 ULO balance – these are all SFY2011 & SFY2012 funds.

EPA Follow-Up: EPA will monitor LDEQ's efforts to meet their goal of reducing the ULO balance.

B. Environmental and Technical Review Results

Bid Documents

The EPA-provided Davis-Bacon (DB) grant condition was not included in the CWSRF project file bid documents. It can be found online at:

http://www.epa.gov/ogd/tc/State_Revolving_Funds.pdf

EPA Recommendation: Issue a change order to reflect the EPA-provided Davis-Bacon grant condition for all projects for which construction contracts have not been completed upon receipt of this PER.

LDEQ Response: LDEQ will ensure that recipients issue change orders to include appropriate DB language for contracts that have not been completed.

EPA Response: Thank you for your response. EPA will continue to monitor this issue during subsequent on-site visits.

DBE Participation

LDEQ is aware of all DBE requirements and LDEQ continues to meet their DBE goals.

EPA Commendation: EPA commends LDEQ for meeting their DBE goals.

C. Financial Review Results and Recommendations

Cash Draws – The cash draws reviewed appear to be in compliance with the cash draw rules and federal regulations. The draws were selected by means of a random sampling of the federal cash draw system. The following cash draws were reviewed:

Note: On 1/28/13 EPA regions were notified that the Office of Management and Budget (OMB), through the EPA Office of the Chief Financial Officer (OCFO), directed that the State Revolving Funds (SRF) be subject to random selection of SRF transaction to develop a national estimate of improper payments from these programs. For the LDEQ CWSRF Base program, one transaction was randomly selected by OCFO and was included in the cash draw transaction testing reviewed. For reference and future reporting purposes, this is noted in the following list below as “OCFO selected”.

1. 03/28/12 in the amount of \$461,759.00;
2. 05/07/12 in the amount of \$387,743.00;
3. 05/15/12 in the amount of \$723,676.00;
4. 05/23/12 in the amount of \$235,585.00; and
5. 03/01/12 in the amount of \$1,092,738.00 (OCFO selected).

No improper payments were discovered during the review. LDEQ has practical internal controls in place for reviewing all reimbursement requests. The internal controls involve both the engineer and the financial staff working together to safe guard against erroneous payments. LDEQ staff is doing a great job ensuring reimbursement requested invoices are accurate and eligible for the SRF funds prior to the cash draw and disbursement process. The staff continues to track and monitor when reimbursement requests are received and when they are being reimbursed. This ensures that each recipient is being compensated timely and expeditiously.

EPA Commendation: LDEQ does a proficient job monitoring their reimbursement requests for improper payments and eligibility.

State Match- LDEQ met their 20% match requirement through revenue bonds which are put into the “Funds” at the time the capitalization grant is awarded. The bonds are retired the next day with interest earned from SRF funds. The State also draws down the federal funds at 83.33% and State funds at 16.67% ratios for recipient reimbursements. This keeps LDEQ compliant with State match and federal cash draw ratio requirements.

Timely and expeditious use of funds – LDEQ is continuing to improve on the timely and expeditious use of their base SRF funds. LDEQ closed a total of 9 loans totaling \$52,503,000 in SFY 2012. These projects were stretched over 9 different parishes and 9 different municipalities.

EPA Commendation: LDEQ is commended for their loan production which has assisted in decreasing their ULOs significantly.

Compliance with Audit Requirements – For the past several years LDEQ’s SRF program annual audit has been conducted by the independent auditor, Office of Legislative Auditor, State of Louisiana. The SFY 2012 audit was being conducted during the on-site review and is currently not available for review.

EPA Recommendation: Please submit the “final” version of the SFY 2012 audit report when available.

Single Audits –LDEQ maintains a continuous A-133 single audit tracking chart which delineates when single audits are due, comments on any audit findings, and how findings are addressed with each recipient.

Financial Status- The financial status of the program has shown significant improvement in the past several years. LDEQ has efficiently provided Louisiana recipients with low interest rate loans, which in turn is helping to provide additional future funds to the SRF program. This ensures that the CWSRF program maintains itself into perpetuity.

Financial Indicators:

The State reported the following cumulative financial indicators:

	<u>National Avg.</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Return on Federal Investment	255%	149%	144%	143%
Executed loans as % of Funds Available	98%	86%	91%	89%
Disbursements as % of Executed loans	86%	76%	73%	74%

The financial indicators above show that the return of federal investment for the Louisiana CWSRF program has remained constant over the last few years. The executed loans as a percent of funds available (also referred to as the “Pace” of the program) has remained steady, but is slightly below the national average. The disbursements as % of executed loans has improved slightly, but remains under the national average.

EPA Recommendation: EPA encourages LDEQ to continue their efforts to increase their financial indicators to achieve the National Average.

III. STATEMENT OF COMPLIANCE WITH SRF ANNUAL REVIEW GUIDANCE

We have conducted an annual review of the Louisiana Department of Environmental Quality’s Clean Water State Revolving Fund Program for program year 2012 in accordance with EPA’s SRF Annual Review Guidance.

FOLLOW-UP ACTION ITEMS

ACTION ITEMS	RESPONSIBILITY	DUE DATE
Continue to work on reducing the ULO balance.	LDEQ	Ongoing
Issue a change order to reflect the EPA-provided Davis-Bacon grant condition for all projects for which construction contracts have not been completed.	LDEQ	Ongoing
Please submit the "final" version of the SFY 2012 audit report when available.	LDEQ	Ongoing
EPA encourages LDEQ to continue their efforts to increase their financial indicators to achieve the National Average.	LDEQ	Ongoing